


FRENCH PETROLEUM COMPANY
OF CANADA LTD.



Tenth Annual Report
1966



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FRENCH PETROLEUM COMPANY OF CANADA LTD.

DIRECTORS

J. C. BENEZIT	Paris, France
F. R. BERBIGIER	Paris, France
H. J. CHAMPIN	Paris, France
H. C. DE CIZANCOURT	Vevey, Switzerland
F. C. COPE	Montreal, Quebec
J. D'EYSSAUTIER	Paris, France
W. T. HAMILTON	Calgary, Alberta
J. J. SAUCIER	Calgary, Alberta
D. L. TORREY	Montreal, Quebec
R. VAN DEN PERRE	Brussels, Belgium

OFFICERS

R. VAN DEN PERRE	<i>Chairman of the Board</i>
W. T. HAMILTON	<i>President</i>
H. J. CHAMPIN	<i>Vice-President</i>
J. H. LAHERRERE	<i>Vice-President, Exploration</i>
S. B. LAING	<i>Treasurer</i>
W. G. TUCKER	<i>Secretary</i>

HEAD OFFICE

635 SIXTH AVENUE S.W., CALGARY, ALBERTA, CANADA

REGISTRARS

THE ROYAL TRUST COMPANY
Toronto Montreal
 Calgary

TRANSFER AGENTS

MONTREAL TRUST COMPANY
Toronto Montreal
 Calgary

EXCHANGE LISTINGS

TORONTO STOCK EXCHANGE
MONTREAL STOCK EXCHANGE

AUDITORS

PRICE WATERHOUSE & CO.



Ten Year STATISTICAL REVIEW

OPERATIONS

	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957
Proven Oil Reserves (bbls.)	33,104,751	30,088,489	24,309,501	23,122,022	20,235,993	17,130,968	17,788,945	15,978,015	12,573,880	7,750,000
Probable Oil Reserves (bbls.)	10,402,814	9,922,122	12,900,740	11,801,123	10,073,100	12,916,125	7,581,710	6,385,067	6,108,920	3,340,000
Oil and Condensate Production (bbls./year)	1,008,652	988,907	999,736	1,046,494	875,955	722,583	565,418	469,571	272,885	278,462
Natural Gas Sales (Mcf/year)	1,958,150	2,037,366	1,750,444	326,978	—	—	—	—	—	—
Gross Land Holdings (acres)	5,524,324	3,915,662	6,334,685	5,860,210	5,439,535	4,584,975	5,272,013	5,248,768	2,229,412	2,926,291
Net Land Holdings (acres)	2,340,990	2,491,711	4,165,070	3,104,070	2,312,815	1,556,110	1,533,641	1,653,802	1,244,553	1,643,872

FINANCIAL

Revenue from Production (\$) (after royalty and production costs)	2,149,004	2,088,739	2,064,022	2,012,436	1,669,357	1,316,986	993,485	860,632	533,843	592,913
Total Income All Sources (\$) (after royalty and production costs)	2,159,437	2,107,504	2,079,687	2,031,824	1,696,262	1,359,544	1,090,425	1,127,392	977,825	928,282

FRENCH PETROLEUM COMPANY OF CANADA LTD.

To the Shareholders:

Your Directors are pleased to present herewith the Company's Annual Report and Financial Statements for the fiscal year ended December 31st, 1966.

Increased oil and condensate production more than offset a minor decline in total gas sales during 1966 with the result that the aggregate value of all production obtained by your Company during the past year was slightly in excess of the corresponding figure for 1965. Your Company's total crude oil and condensate production for the year amounted to 1,008,652 barrels for an average of 2,763 barrels per day as compared to a total of 988,907 barrels and daily average of 2,709 barrels obtained during the preceding year. Natural gas sales decreased slightly to an average of 5,365 Mcf per day from the daily average of 5,581 Mcf produced and sold by the Company during 1965.

After allowing for the past year's production of 1,008,652 barrels, your Company's proven oil reserves remaining at the end of 1966 were estimated to be 33,104,751 barrels. This represents an increase of 10% over the 1965 comparable figure. The combined estimated total of your Company's proven and additional probable oil reserves at the end of 1966 amounted to 43,507,565 barrels as compared to 40,010,611 barrels at the end of the preceding year.

Gross revenue for the year from the sale of oil and gas production, less royalties, totalled \$2,436,027 as compared to \$2,380,966 in 1965. Cash flow from your Company's operations during the year amounted to \$1,739,694 after payment of operating and administrative expenses. After allowing for depletion and depreciation, your Company's net profit for the year was \$855,431 or 23¢ per share, comparable to a net profit of \$805,055 or 22¢ per share calculated on the same basis for 1965.

Your Company drilled or participated in the drilling of seven exploratory wells and five development wells during 1966 and, in addition, held interests through farmouts in twelve development wells and one exploratory well drilled during the year. This program resulted in a suspended gas well in the Rainbow area, a successful oil well in each of the Mitsue and Nipisi fields and eleven oil development wells in which your Company has varying overriding royalty interests in the Oungre region of Saskatchewan. Several of the exploratory wells

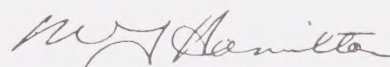
drilled during the year, although not commercially productive, were sufficiently encouraging to warrant plans for further drilling in areas such as Smoky River, Alberta and Nig Creek, British Columbia. In the Hudson Bay region of central Canada, where your Company now has interests in extensive onshore and offshore permit acreage, one onshore exploratory well which was partially drilled during 1966 will be continued during the Summer of 1967. Seismic work, both onshore and marine, is also planned for this area during the coming year.

An active geophysical program was undertaken in various areas of British Columbia and Alberta during 1966, to evaluate acreage in which your Company has interests and to appraise other lands prior to Crown sales. Much of this work was concentrated in the area of known and potential Keg River reef extending from South Rainbow to North Zama Lake and Steen River in northwestern Alberta. Assisted by information gained from this seismic work, your Company, participating jointly with other companies, acquired several Crown drilling reservations and leases during the past year in these areas which continue to attract very strong interest and activity.

After carefully considering all factors involved, your Company's management has decided in favor of implementing at this time a substantially increased program of exploration activity in Western Canada. In preparation for the immediate commencement of this expanded program, the staff of your Company's exploration department has been enlarged by the addition of Canadian personnel and geological and geophysical personnel from other operations of Compagnie Française des Pétroles.

Your Directors are confident that the continued loyal support given by the employees of the Company during past years will assist greatly in attainment of the challenging goals which have been set for 1967 and subsequent years.

Submitted on behalf of the Board,



President.

March 15, 1967.

GENERAL REVIEW OF OPERATIONS

DEVELOPMENT

Development operations carried out on the Company's properties during 1966 resulted in a successful oil well in each of the Mitsue and Nipisi fields of Alberta. French Petroleum has interests of 25% and 37½%, respectively, in these producing wells. Step-out wells which were drilled in an endeavor to extend the producing areas in the Mitsue and Big Valley fields, however, both proved unsuccessful. A further development well drilled in the Boundary Lake area of British Columbia was abandoned without reaching the objective depth due to mechanical difficulties.

In the Oungre area of Saskatchewan, your Company supported the drilling of 12 develop-

ment wells during 1966 by contributing acreage and retaining a gross overriding royalty on production. Of these, 11 were completed as oil producers. Development of this marginal area of the Oungre field is now virtually complete and your Company has, without incurring drilling expenditures, maintained an interest in the form of varying percentages of overriding royalty in a total of 27 producing wells in this area.

Negotiations with other working interest owners in the Morse River area of Alberta were concluded during the early part of the year resulting in the formation of Morse River Unit No. 1. French Petroleum has a working interest of 25.8% in this oil Unit which at the present time includes 14 wells.

EXPLORATION

Your Company participated in the drilling of eight exploratory wells during 1966. This total includes one farmout well drilled without cost to the Company on its acreage in the Chinchaga region of Alberta and a well in the Rainbow area which was commenced prior to the end of 1965 and suspended early in 1966 as a potential gas producer. Although no commercial discoveries resulted from the remaining exploratory wells, significant information was obtained for use in land evaluation and further exploration. Wells drilled in the Smoky River area of Alberta and the Nig Creek region of British Columbia both encountered porous gas-bearing zones which, although subsequently deemed to be non-commercial, have encouraged plans for further drilling in these areas.

In the Hudson Bay region of Central Canada, where your Company now has a 12½% net interest in extensive onshore and offshore permit acreage, one onshore exploratory well was partially drilled during 1966 and drilling will again resume at this well in the summer of 1967. Present plans also call for seismic work in this

area during the coming year followed by the drilling of additional onshore wells in 1968 if encouragement is obtained from the seismic program. Further information with respect to the interest acquired by your Company in this area is contained in another portion of this report.

In the West McMurray area of Northern Alberta your Company entered into an agreement with Pan American Petroleum Corporation during the latter part of 1966 to provide for the pooling of certain lands held by each Company in this region for the purpose of conducting joint exploratory operations over the larger pooled area during the 1966-67 winter season.

Your Company engaged in an active geophysical program during the year under review, conducting and participating in numerous seismic programs in British Columbia and Alberta to evaluate acreage in which it holds interests and to appraise available adjoining Crown lands. The major portion of this work centred over the Keg River reef area of northwestern Alberta extending from South Rainbow to Steen River

and North Zama Lake. As a result of information obtained from seismic work completed during the past year in these areas, your Company, participating jointly with other companies, was successful in acquiring several Crown drilling reservations and leases despite very strong competitive interest. These newly-acquired lands are shown on the map which is incorporated with this report.

Early in 1967 it was announced that your Company is preparing to expand the scope of its exploration activity in Western Canada and

that, effective immediately, the amount of funds annually budgeted for exploration purposes is being substantially increased. In order to implement this expanded program the Company has enlarged the staff of its exploration department by the addition of Canadian personnel and geological and geophysical personnel from other operations of Compagnie Française des Pétroles. Among those joining French Petroleum from key posts previously held with Compagnie Française des Pétroles is Mr. Jean Laherrere, who becomes Vice-President in charge of Exploration.

LAND

New land interests were acquired in several geologically prospective areas during 1966, with particular emphasis being placed on the rapidly growing Keg River reef trend of northwest Alberta where interests were obtained by your Company in the following areas:

South Rainbow

French Petroleum participated to the extent of 20% in the purchase of two Crown Reserve leases in this area during 1966, one being a 640 acre tract situated 15 miles southeast of the original Rainbow Lake discovery well and the other a 320 acre parcel located six miles southwest of another indicated Keg River oil discovery.

North Zama Lake

In this area of very strong exploratory interest, your Company teamed with four other companies in conducting extensive seismic operations during the late summer and early fall, culminating in the purchase of Drilling Reservation No. 1661 at an October Crown Sale for \$1,278,000 or \$746.50 per lease acre. Your Company has a 20% interest in this land.

Steen River

In April of 1966 your Company participated to the extent of 20% in acquiring, at an aggregate cost of \$89,280, two drilling reservations comprising a total of 12,160 acres in this area of potential Keg River reef lying immediately east of the Sixth Meridian in Townships 118 and 119. Similar land parcels in this general area were purchased by other companies at subsequent Crown

sales during the year for prices ranging from \$437,000 to more than \$2,000,000.

During the latter part of 1966 your Company acquired a 25% working interest in a farmout agreement involving 492,778 gross acres of onshore Manitoba permits and 489,438 gross acres of Federal offshore permits all located in the Hudson Bay area of central Canada. The earning requirements under the farmout have been completed by the partial drilling of an onshore test well and drilling operations are expected to resume at this well in the summer of 1967. Your Company's net interest in the total 982,216 acres of farmout lands, together with an additional 1,362,522 gross acres of onshore and offshore permits in this area, is 12½%. In addition, your Company has undertaken to participate in a joint marine seismic program during 1967 to evaluate and earn a proportionate interest in further extensive offshore permits presently held by another Company in this area.

Your Company's land holdings were reduced in some areas during 1966 through normal conversion of permits and reservations into leases and by selective surrender of acreage considered to lack geological or geophysical merit. Non-renewal of exploratory permits covering 151,680 net acres in the Unity area of Saskatchewan and 190,200 net acres in the Northwest Territories accounted for the major portion of acreage reduction. As shown in the following geographical summary of land holdings, the Company held an interest in 5,524,324 gross acres representing 2,340,990 net acres as at December 31st, 1966. These totals compare with 3,915,662 gross acres and 2,491,711 net acres at the end of 1965.

FRENCH PETROLEUM COMPANY OF CANADA LTD.
TOTAL LAND HOLDINGS AT DECEMBER 31, 1966

	<i>Petroleum and Natural Gas Leases</i>		<i>Reservations, Permits and Licences</i>		<i>TOTAL</i>	
	<i>Gross</i>	<i>Net</i>	<i>Gross</i>	<i>Net</i>	<i>Gross</i>	<i>Net</i>
Alberta	671,435	287,531	1,057,621	757,378	1,729,056	1,044,909
Saskatchewan	23,167	7,773	—	—	23,167	7,773
British Columbia	127,313	48,513	8,301	4,150	135,614	52,663
N.W.T.	—	—	1,291,749	942,553	1,291,749	942,553
Manitoba*	—	—	828,240	103,530	828,240	103,530
Ontario*	—	—	986,560	123,320	986,560	123,320
Federal**	—	—	529,938	66,242	529,938	66,242
	<u>821,915</u>	<u>343,817</u>	<u>4,702,409</u>	<u>1,997,173</u>	<u>5,524,324</u>	<u>2,340,990</u>

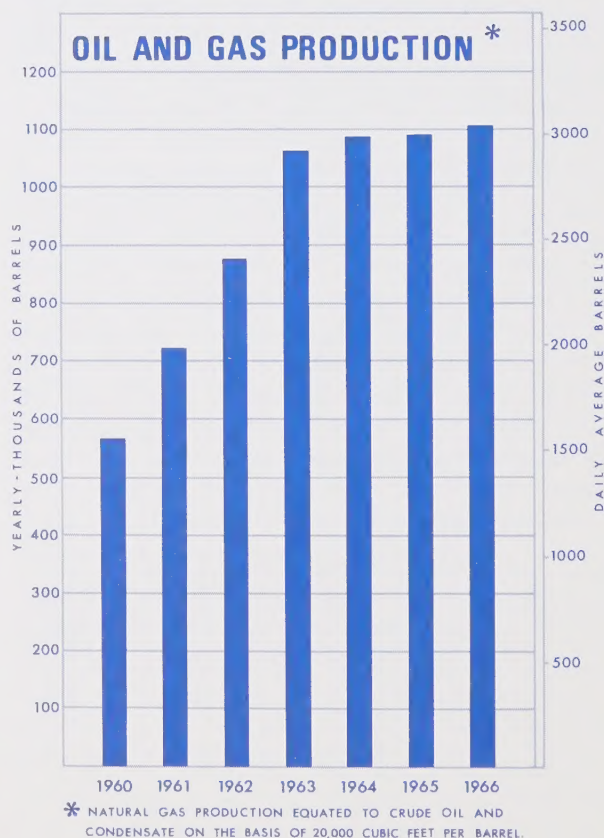
*Hudson Bay Area — onshore

**Hudson Bay Area — offshore

PRODUCTION AND RESERVES

A slight increase in the total oil and condensate produced during the year more than offset a minor decline in total natural gas sales with the result that the combined total value of all production obtained by your Company during 1966 was higher than that recorded for the previous year. The Company's total production of crude oil and condensate in the twelve month period under review amounted to 1,008,652 barrels representing an average of 2,763 barrels per day. This compares with a total of 988,907 barrels and a daily average of 2,709 barrels produced during 1965. Natural gas sales averaged 5,365 Mcf per day for a total of 1,958,150 Mcf as compared to a daily average of 5,581 Mcf and a total of 2,037,366 Mcf produced and sold by the Company during the previous year.

The favorable results being obtained from pressure maintenance operations, particularly in the Swan Hills field, has enabled the adoption



of higher ultimate recovery factors in estimating your Company's crude oil reserves. This, together with development operations carried out during the year, has resulted in a 10% increase in the Company's estimated proven oil reserves at the end of 1966 as compared to the corresponding 1965 figure. After providing for the past year's production of 1,008,652 barrels, your Company's proven oil reserves at the end of 1966 were estimated to be 33,104,751 barrels with estimated additional probable reserves bringing the total to 43,507,565 barrels. This compares with a corresponding total of 40,010,-

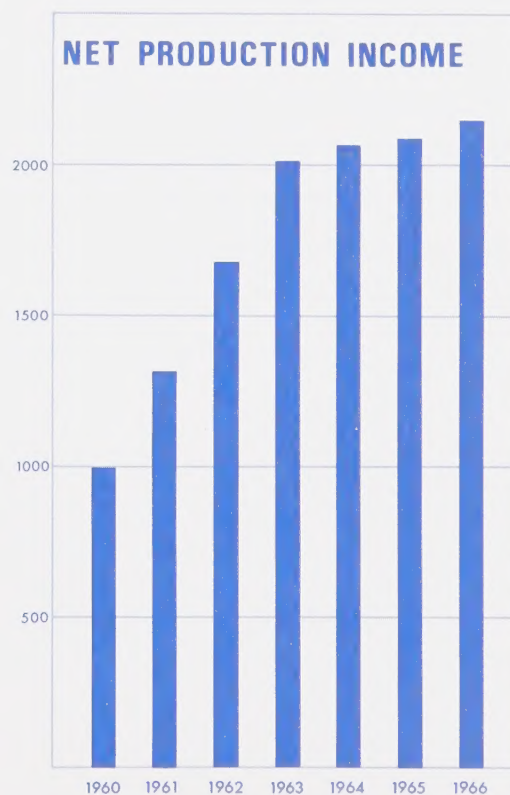
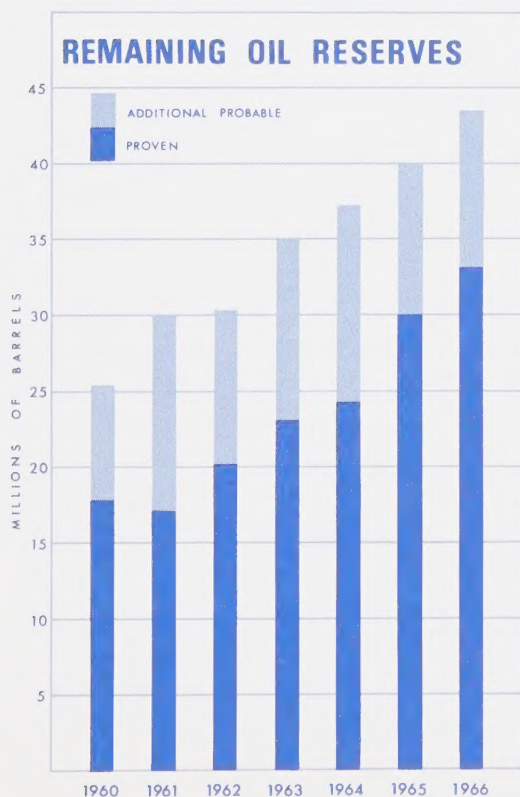
611 barrels of proven and probable oil reserves estimated at the end of the preceding year, representing a combined net increase of 3,496,954 barrels.

A redetermination of recoverable reserves made prior to inclusion of the Company's gas producing properties in the Erskine Gas Unit No. 1, together with the total production and sales of gas made during the year, resulted in a slight decrease in the Company's estimated proven developed gas reserves to a total of 90.17 billion cubic feet at the end of 1966.

FINANCIAL

As shown in the Statement of Income and Deficit accompanying this report, financial results from the Company's operations during 1966 compare favourably with those of the previous year. Gross revenue for the year from the sale of natural gas, crude oil and condensate, after payment of royalties and production expenses,

amounted to \$2,149,004 compared with \$2,088,739 in 1965. Cash flow from operations during the year was \$1,739,694. After making allowances for depletion and depreciation totalling \$897,872, the Company's net profit for the year was \$855,431. This compares with a net profit of \$805,055 calculated on the same basis for the preceding year.





FRENCH PETROLEUM CO

BALANCE SHEET

(with comparative figures)

ASSETS

	1966	1965
CURRENT ASSETS:		
Cash	\$ 58,041	\$ 176,858
Securities, at cost (Market value \$11,350)	12,369	200,056
Accounts receivable	507,084	436,644
Materials and supplies, at cost	37,021	82,343
Refundable deposits	180,625	206,292
Other current assets	6,173	9,960
	<u>801,313</u>	<u>1,112,153</u>
CAPITAL ASSETS: (Note 1)		
Petroleum and natural gas properties	30,507,610	27,607,010
<i>Less — Accumulated depletion</i>	(4,627,931)	(3,866,568)
Drilling and development in progress	45,208	94,998
Production equipment, at cost	2,303,102	2,180,750
<i>Less — Accumulated depreciation</i>	(869,297)	(760,684)
Other capital assets, at cost	363,194	265,668
<i>Less — Accumulated depreciation</i>	(181,988)	(171,466)
	<u>27,539,898</u>	<u>25,349,708</u>
	<u>\$28,341,211</u>	<u>\$26,461,861</u>

IPANY OF CANADA LTD.

at December 31, 1966

s for 1965)

LIABILITIES AND CAPITAL

CURRENT LIABILITIES:

	1966	1965
Accounts payable and accrued	\$ 468,694	\$ 372,775
Current instalments of bank loans	172,000	72,000
	<u>640,694</u>	<u>444,775</u>

OTHER LIABILITIES:

Bank loans, secured by an assignment of production, less amount due within one year (Note 2)	472,000	144,000
Advance from parent company	500,000	—
	<u>972,000</u>	<u>144,000</u>

SHAREHOLDERS' OWNERSHIP:

Capital stock — (Note 3)		
Common shares of no par value —		
Authorized — 6,500,000 shares		
Issued — 3,690,388 shares	36,903,882	36,903,882
Deficit, per statement attached	10,175,365	11,030,796
	<u>26,728,517</u>	<u>25,873,086</u>

APPROVED ON BEHALF OF THE BOARD:



Director



Director

\$28,341,211

\$26,461,861

FRENCH PETROLEUM COMPANY OF CANADA LTD.

Statement of Source and Disposition of Working Capital

For the year ended December 31, 1966
(with comparative figures for 1965)

	1966	1965
Source of working capital:		
Net cash income	\$ 1,739,694	\$ 1,662,902
Advance from parent company	500,000	—
Sale of participating preferred shares	—	500,000
Bank loan	500,000	—
	<u>2,739,694</u>	<u>2,162,902</u>
Disposition of working capital:		
Petroleum and natural gas properties — net:		
Purchase of properties	751,699	83,043
Drilling of wells	786,343	565,976
Geological and geophysical surveys	1,057,873	792,038
Lease and reservation rentals	304,685	347,807
	<u>2,900,600</u>	<u>1,788,864</u>
Production and other equipment — net	223,643	314,901
Work in progress — net change	(49,790)	(35,200)
Instalment due on bank loans	172,000	72,000
	<u>3,246,453</u>	<u>2,140,565</u>
Increase (decrease) in working capital during the year	(506,759)	22,337
Working capital, beginning of the year	667,378	645,041
Working capital, end of year	<u>\$ 160,619</u>	<u>\$ 667,378</u>

FRENCH PETROLEUM COMPANY OF CANADA LTD.

Statement of Income and Deficit

For the year ended December 31, 1966

(with comparative figures for 1965)

	1966	1965
Gross revenue from production, less royalties	\$ 2,436,027	\$ 2,380,966
Production expenses	287,023	292,227
	2,149,004	2,088,739
Investment income	10,433	18,765
	2,159,437	2,107,504
Operating departmental expenses	164,803	139,276
Administrative and general expenses	225,463	235,796
Capital reorganization costs	1,500	54,457
Interest expenses	27,977	15,073
	419,743	444,602
NET CASH INCOME	1,739,694	1,662,902
Depletion	761,363	741,688
Depreciation	136,509	124,414
Profit on disposal of assets	(13,609)	(8,255)
	884,263	857,847
NET INCOME FOR THE YEAR	855,431	805,055
Deficit, beginning of year	11,030,796	11,835,851
DEFICIT, END OF YEAR	\$10,175,365	\$11,030,796

FRENCH PETROLEUM COMPANY OF CANADA LTD.

Notes to Financial Statements

December 31, 1966

1. ACCOUNTING POLICY:

Since January 1, 1965 the Company has followed the full-cost method of accounting for petroleum and natural gas properties by which all amounts expended with respect to the acquisition, retention, exploration for and development of oil and gas reserves, whether productive or unproductive, have been capitalized as representing the cost of the Company's reserves. Proceeds of disposals ordinarily will be applied in full to reduce the costs.

Provision for depletion has been computed by the unit of production method based upon the total costs in relation to overall estimates of proven reserves of oil and gas.

Production equipment has been accounted for separately and depreciated by the straight line method at rates designed to amortize costs over the estimated service life of the assets.

2. BANK LOANS:

The bank loans are repayable in amounts aggregating \$172,000 in the years 1967 and 1968 and at \$100,000 per annum for the years 1969 to 1971 inclusive.

3. CAPITAL STOCK OPTIONS:

Options to purchase 40,000 Common shares of the Company are outstanding including options on 29,000 shares held by directors or officers. These are exercisable accumulatively over a four-year period ending June 30, 1969 at a price of \$4.05 per share.

4. INCOME TAXES:

Drilling and exploration expenses and property acquisition costs deductible for income tax purposes exceed the income otherwise taxable and no income tax is exigible.

5. STATUTORY INFORMATION:

Fees of directors not holding salaried positions amounted to \$5,250 while the total remuneration of directors holding salaried positions amounted to \$65,510.

Auditors' Report

TO THE SHAREHOLDERS OF

FRENCH PETROLEUM COMPANY OF CANADA LTD.

We have examined the balance sheet of French Petroleum Company of Canada Ltd. as at December 31, 1966 and the statements of income and deficit and source and disposition of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1966 and the results of its operations and the source and disposition of its working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

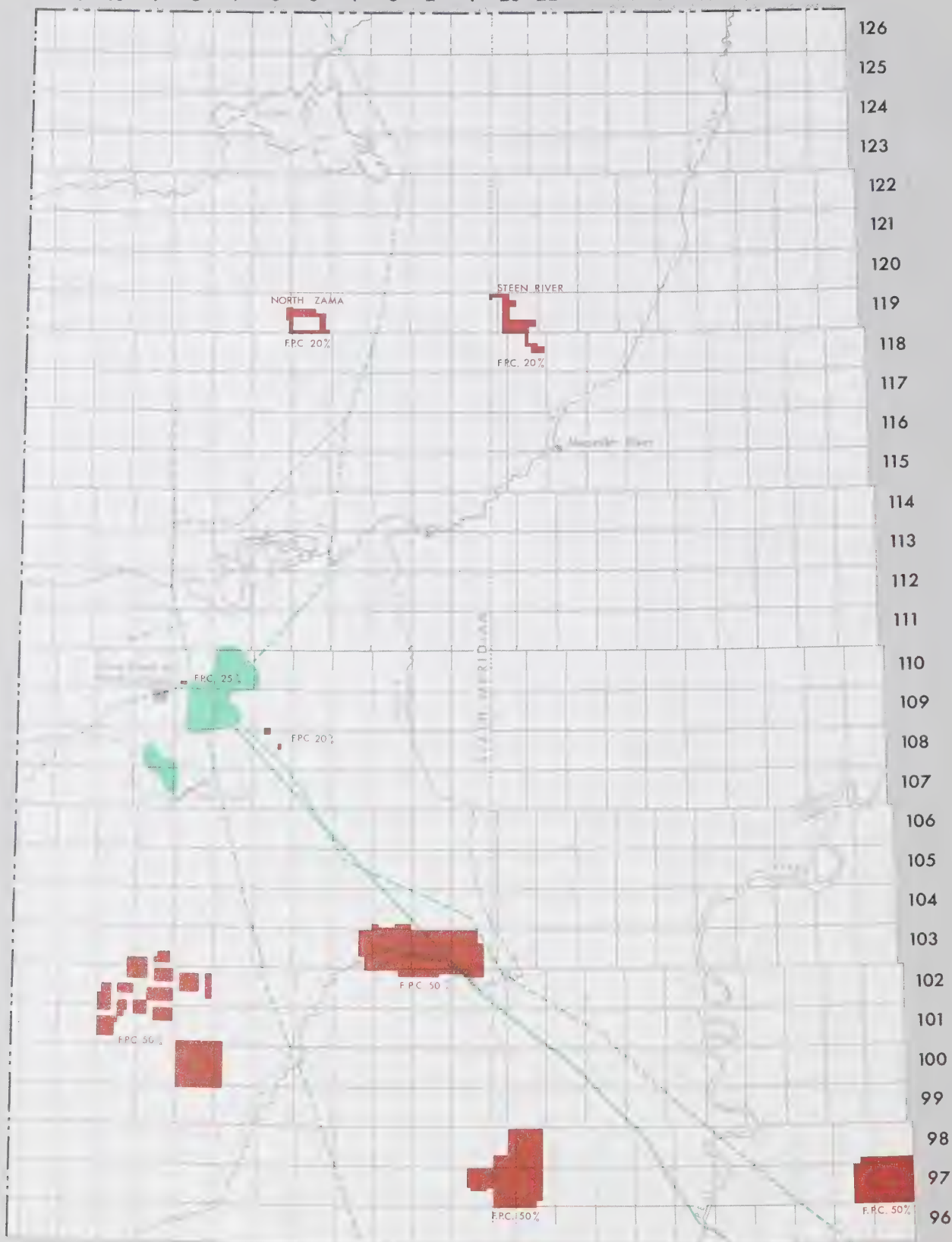
Calgary, Alberta.
February 27, 1967.

PricewaterhouseCo.
Chartered Accountants.

NORTHWEST TERRITORIES

12 11 10 9 8 7 6 5 4 3 2 1 23 22 21 20 19 18 17 16 15

BRITISH COLUMBIA



RAINBOW LAKE AREA ALBERTA

LAND HOLDINGS OF FRENCH
PETROLEUM COMPANY OF
CANADA LTD. - DEC. 31, 1966

0 12 24 36 Miles

OIL FIELD
OIL PIPELINE
proposed



HUDSON BAY AREA

LAND HOLDINGS OF FRENCH
PETROLEUM COMPANY OF
CANADA LTD. - DEC 31, 1966

NORTHWEST TERRITORIES

SASKATCHEWAN

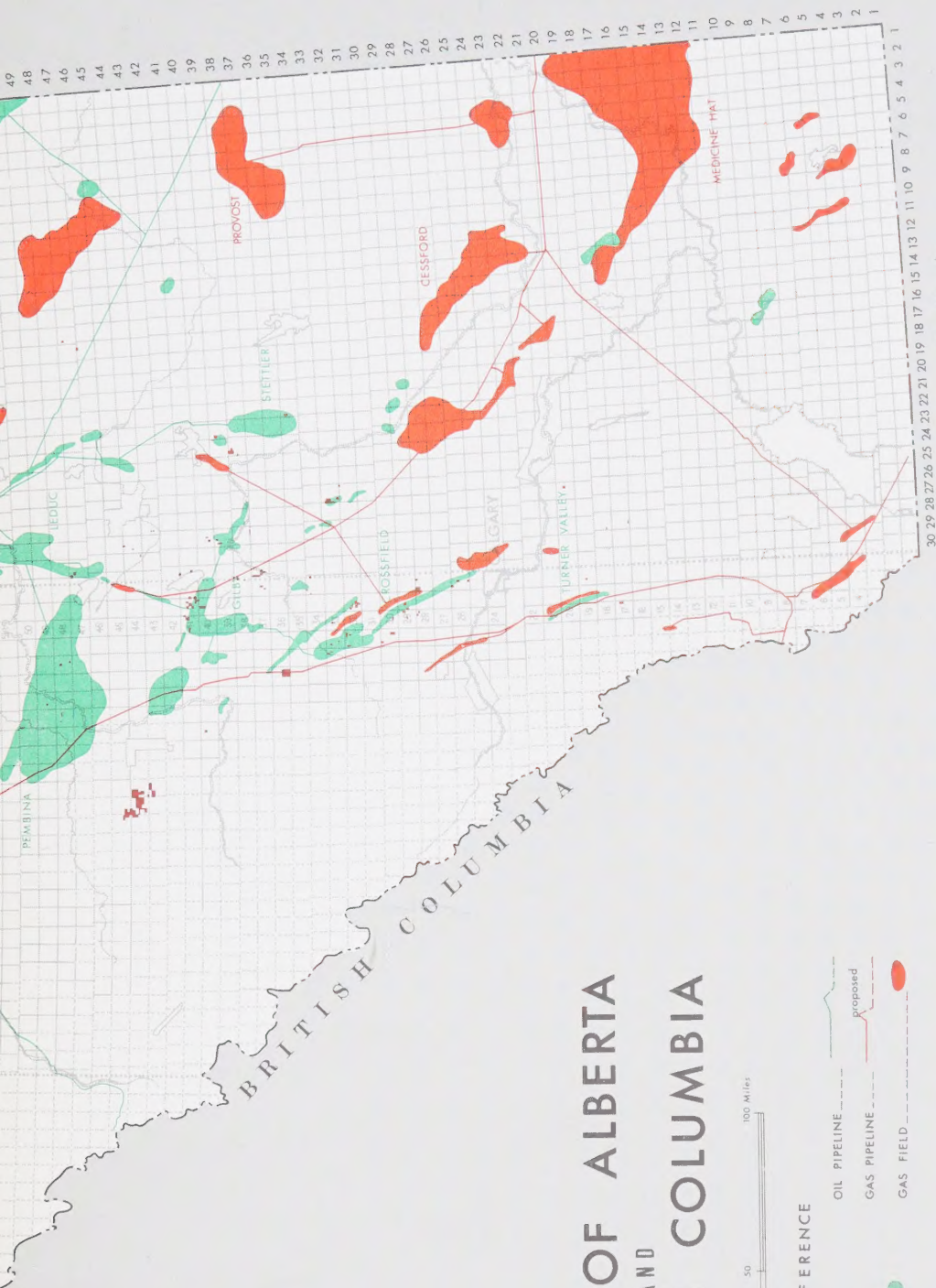


PROVINCE OF ALBERTA AND N.E. BRITISH COLUMBIA



REFERENCE

LAND HOLDINGS OF FRENCH
PETROLEUM COMPANY OF
CANADA LTD. - DEC. 31, 1966



U. S. A.

